

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR A CERTIFICATE OF CONVENIENCE)		
AND NECESSITY TO CONSTRUCT A SCRUBBER)	CASE NO. 92-005
ON UNIT NO. 1 OF ITS GHENT GENERATING)	
PLANT)	

O R D E R

On January 2, 1992, Kentucky Utilities Company ("KU") filed an application, pursuant to KRS 278.020(1), for a Certificate of Public Convenience and Necessity to construct a flue gas desulfurization system ("scrubber") and associated scrubber retrofit facilities at Unit No. 1 of Ghent Generating Station in Carrollton, Kentucky ("Ghent Unit No. 1"). The scrubber is scheduled for completion in December 1994, in order for KU to comply with Phase I requirements of Title IV of the Clean Air Act Amendments of 1990 ("Clean Air Act"). The SO₂ reduction requirements of Title IV will be implemented in two phases. Phase I and Phase II will have an effective date of January 1, 1995 and January 1, 2000, respectively. Kentucky Industrial Utility Customers ("KIUC"), the Attorney General's office, by and through his Utility Rate and Intervention Division ("AG"), and the United Mine Workers filed motions for intervention and they were granted. KIUC and the AG participated in the May 20, 1992 hearing and filed briefs.

KU evaluated nine different compliance options that meet the annual emission limitation required by the Clean Air Act for the next 30-year period. Five of the compliance plans include scrubbing and fuel switching combinations of Phase I affected generating units. The other compliance plans include only fuel switching. KU determined an optimal compliance plan by using a minimum present value of revenue requirements criteria over a 30-year period. The results of this analysis indicate that the least costly alternative will be to construct a scrubber and associated facilities, as described in KU's application, at Ghent Unit No. 1. This compliance plan will have an estimated cost of \$125 million. While the AG and KIUC individually criticized certain aspects of KU's compliance plans, they both recommended that KU be authorized to construct the scrubber as proposed.

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that KU's emissions will exceed the maximum levels allowed under Phase I of the Clean Air Act beginning January 1995. To achieve the necessary emissions reductions by 1995, KU analyzed nine compliance plans and proposes, as being least costly, the construction of a scrubber at its Ghent Unit No. 1. The Commission concurs with KU's proposal. This scrubber is necessary for KU to continue meeting the electric demands of its existing customers, will not be duplicative of any other facilities and will produce the maximum efficiency at the lowest cost. Our approval of this scrubber, however, does not signify approval of an overall clean air compliance plan for KU.

Such a plan, if filed by KU, will be reviewed in a separate application.

The Commission recognizes the AG's criticism of KU for not filing its application soon enough to allow for an in-depth analysis of all viable alternatives and for not considering compliance options that included conservation programs, renewable resources, rate structure reform, and the buying and selling of emission allowances. Even though the AG admitted that these options alone will not bring KU into compliance with the Clean Air Act, he asserted that such options should be seriously considered by KU in developing future compliance plans. The Commission agrees that all feasible compliance alternatives should be considered by KU in developing its long-term, least-cost compliance strategy. Thus, KU should include all feasible compliance alternatives in future compliance plans and integrated resource plans filed with the Commission. As to the proper time to file an application pursuant to KRS 278.020(1), the legislature has established no time limits on a utility's filing or the Commission's review. Thus, we will decline the AG's invitation to establish such time limits in this case.

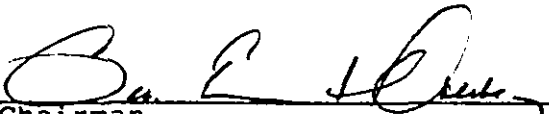
KIUC contended that, despite KU's demonstration that constructing the proposed scrubber will be the lowest cost compliance alternative, KU did not prove that the cost of the alternative could not be lowered by utilizing innovative financing plans. KIUC, therefore, recommended that the approval of a scrubber be conditional upon KU's implementation of a least cost

financing strategy. The Commission shares KIUC's interest in having KU obtain the lowest cost to finance the construction authorized herein. However, due to KU's need for the facilities proposed herein, it would not be appropriate to condition our approval upon KU's adoption of a particular financing scheme. The details of KU's financing plans can, and will, be reviewed in cases filed under KRS 278.300.

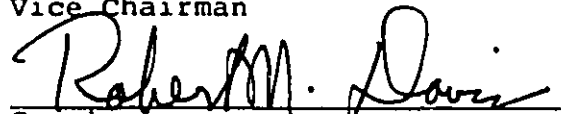
IT IS THEREFORE ORDERED that KU be and it hereby is granted a Certificate of Public Convenience and Necessity to construct a scrubber and associated facilities at Ghent Unit No. 1.

Done at Frankfort, Kentucky, this 24th day of July, 1992.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director